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Affordable housing: Longer term solution needed

THEORETICALLY, affordable housing refers to housing which meets certain acceptable standard of quality, location and price.

In the Bank Negara's Annual Report 2016, the central bank recognises three approaches when evaluating housing affordability in Malaysia, which are the Median Multiple (MM), Housing Cost Burden (HCB) and Residual Income (RI).

Under the MM approach, a house is deemed to be affordable if it is priced not more than three times of the household's median annual income.

Currently, the Report of Household Income and Basic Amenities 2016 by the Statistics Department states that the monthly median household income is at RM5,228, amounting to RM62,736 annually. Therefore, the supposed price of affordable housing should be around RM188,208.

Meanwhile, under the HCB approach, affordable housing is defined as not exceeding 30% of the household income when totalling up housing expenditures. Housing expenditures include mortgage principal payments, interest payment, rent, house insurance, mandatory services and charges, regular maintenance and repairs, taxes and other cost of utilities.

Lastly, based on the RI, affordable housing is defined by the household's capacity to spend on housing from their residual income, which is the remaining amount after subtracting the basic necessity costs.

A study done by Bank Negara revealed that all three approaches showed a significant deterioration in housing affordability in Malaysia between 2012 and 2014. In particular, in key urban cities such as Kuala Lumpur, Johor Baru and George Town, affordable housing became severely unaffordable for Malaysians.

This has contributed to a recent rise in unsold properties in Malaysia. In the first half of 2017, total unsold residential houses stood at 130,690 units – the highest in a decade.

Not surprisingly, about 83% of the unsold units were above the RM250,000 price category.

Among them, Johor takes up the largest share with 27% of the total unsold units, followed by Selangor (21%), Kuala Lumpur (14%) and Penang (8%).

Single authority may be the solution

Recently, Bank Negara released its six policy options to reduce supply imbalances in the property market, which includes the setting up of a single entity to spearhead the planning and delivery of affordable housing nationwide.

As in my previous MyPoint articles, the 1Malaysia Affordable Housing Board (1MAHB) can be the central authority body, which may be empowered to incorporate all current existing affordable housing agencies.

Besides that, 1MAHB can function as a one-stop centre that helps to regulate processes by reviewing and streamlining it, reducing the overall construction costs of affordable homes.

In accordance with that, another proposal for successful affordable housing initiative which I would like to add is a new joint-venture between the federal and state governments. Land issues are the main impediments cited by most developers of such project.

A 50:50 joint-venture will be a win-win solution for both authorities – the state government can get sufficient funding from the Federal Government (FG), while FG would benefit from cheaper land from state authorities. While these options ease the financial constraints faced by state governments, developers could also develop parcels of under-utilised state government land which are strategically located.

After all, the affordable housing agenda is of national interest.

Furthermore, 1MAHB will adopt the role of an enabler by effectively negotiating with state governments to release cheaper parcels of land to developers for the purpose of affordable housing projects. These lands could be released to developers at a lower cost, on the condition that house prices cannot exceed a certain ceiling price.

Overall, 1MAHB together with the involvement of federal and state governments would make sure that the completion of the development is within the stipulated timeframe.

1MAHB would also be in charge of establishing a database of housing units in various stages including planning, constructing and completed units, as well as collate data on overhang units that are available for distribution.

Good database important for planning

As mentioned in the deputy governor's keynote address on sustainable development of affordable housing, it is crucial to have an integrated database on housing supply and demand that can provide insights on the needs and preferences of households, their linkages with demographic shifts, as well as housing gaps across Malaysia.

Besides an aggregated view of market conditions, good data at a granular level is also important to help define "affordability" not only in different states of the country but also at district level.

Furthermore, the setting up of a central authority body that leads, oversees and coordinates affordable housing initiatives would promote greater strategic and operational cohesion at the national level.

I believe that access to affordable housing plays a crucial role in the social mobility of the younger generation.

Assistance from EPF

Generally, for the youth, the first five years of employment is the most challenging and toughest period, having barely enough savings to acquire any property.

At the moment, the withdrawal limit to purchase a home is at 30% of total Employees Provident Fund (EPF) savings or all savings in account two.

Let's assume a 25-year old fresh graduate who aspires to own a home after five years of working, with a starting salary of RM2,500-RM3,000. By taking into account Malaysia's average wage growth of above 5% for the past few years, a conservative 5% is chosen to project a yearly salary increase in the next five years.

Based on the calculations in the table provided, the accumulated amount in EPF account two after five years of savings is about RM11,500. This means that the only property the individual can afford is the People's Housing Project (PPR) unit, which is priced between RM30,000 and RM35,000.

Moreover, the maximum eligible household monthly income for applicants of PPR houses was raised last year from RM2,500 to RM3,000. That's a double whammy for the aspiring first home buyer.

Earning a monthly income of RM3,039, the 30-year-old individual is barely over the eligibility limit set by the Urban Wellbeing, Housing and Local Government Ministry to purchase a PPR home.

To make matters worse, the individual may already have other loan commitments such as personal loan or hire purchase loan, which could reduce the chances of owning a home due to poor debt serviceability and credit score.

Therefore, I would like to suggest a full withdrawal of total EPF savings is allowed for the first home purchase accompanied with certain strict conditions.

Referring to the table above, at the age of 30, the individual would have collected about RM38,000 – enough to pay the down-payment for a PPR unit or a PR1MA home.

The full withdrawal may face certain objections from the authorities, as the proposal may deviate from "savings for the old age". In my opinion, a house is a better form of savings or investment than cash in the EPF account, especially when it is hedged against inflation. Historically, this investment has been providing capital appreciation, while having a place to call home.

An important element of a proposed scheme would be compulsory acquisition of Mortgage Reducing Term Assurance, where by the property is fully paid up for, in the case of misfortunes such as death, terminal illness or total permanent disability that hinders the individual from servicing the loan.

This is a much better financial position for the contributor than having basic savings in EPF.

There is no free lunch in this world. The withdrawal should be attached with a condition that the amount withdrawn should be returned to EPF should the home buyer decide to sell the property. The condition is nothing new – currently practised for unit trust investment.

The purchase will also include a lock-in period, say 10 years. The individual will have to refund the principal amount withdrawn from EPF plus the accrued interest, upon sale.

The excess of the sale proceeds can also be used to purchase the next property. On a longer term, housing issues are solved and affordable housing is now more affordable!

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Younger generation: For the youth, the first five years of employment is the most challenging and toughest period, having barely enough savings to acquire any property.

Money for down payment

	Salary (RM)	Monthly EPF Employee Contribution @ 11%* (RM)	Monthly EPF Employer Contribution @ 12% (RM)	Total Monthly EPF Savings (RM)	Total Yearly EPF Savings (RM)	Total Yearly EPF Account 2 Savings (RM)
Year 1	2,500	275	300	575	6,900	2,070
Year 2	2,625	289	315	604	7,245	2,174
Year 3	2,756	303	331	634	7,607	2,282
Year 4	2,894	318	347	666	7,987	2,396
Year 5	3,039	334	365	699	8,388	2,516
Accumulated					**38,127**	**11,438**

* Statutory rate of employee's contribution.
Source: Alliance Bank Malaysia Bhd

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A staggering RM35.5bil of unsold/unutilised properties

Property type	Unsold units	Vacancy (sq ft)	Incoming supply: Under constructed	Incoming supply: Planned not constructed	Estimated value (RM)
Residential	130,690 units*	N/A	Worth RM68bil (1H2017) (Source: NAPIC)	Worth RM14bil (1H2017) (Source: NAPIC)	RM20bil
Purpose built office	–	20 mil	13 mil sq ft (next 2 years)		RM10bil
Shopping Centres	–	7 mil	44 mil sq ft (from 2017 onwards)		RM5.5bil

* 83% is above RM250,000 i.e. 22,000 units can be classified as affordable housing.